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WEEK OF 10 NOVEMBER - 16 NOVEMBER 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

As part of its intensified activities in the Far East, the USSR is increasing its objections to US policies and objectives in Japan (page 3).

Japan's "past" is hindering present trade revival (page 4).

Australians continue to emphasize their role in Pacific defense (page 4).

Tokyo Trials have resulted in varied public reactions; the Emperor's rumored abdication, however, is held unlikely (page 6). Labor unrest in private industry in Japan threatens to develop to critical proportions and may presage extension of restrictions on trade union activity to industries affected with the public interest (page 6).

Despite recent reports of uprisings in North Korea, there is no prospect of open or organized opposition to that Soviet puppet regime within the foreseeable future (page 7).

The battle for Central China continued with unabated fury as Communist forces, despite press reports to the contrary, continued to constrict the Nationalist position at Hsuehou (page 9). Although a Communist attack on Hanking looms imminent, there has been no concerted effort to move the Government elsewhere (page 9). T. V. Soong, in soliciting further US aid, has informed US officials that he and the other governors of the southern provinces will continue the fight against Communism (page 10). Meanwhile, Communist authorities in Mukden have thus far indicated their desire to cooperate with the US (page 11). The current farmers' boycott of large cities of the lower Yangtze Valley is hastening the fall of these urban areas (page 12).

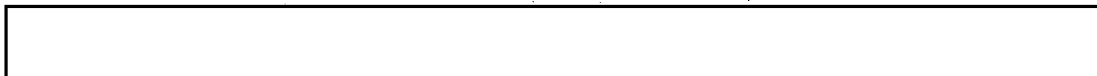
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SUMMARY (continued)

The situation in Indonesia remains tense (page 14).



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A settlement of the Franco-Vietnamese dispute is being delayed by further negotiations. Meanwhile, in Indochina, there has been a strong reaction to the proposed DeGaulle program (page 14).

An ECA allocation will assist nickel production in New Caledonia (page 16).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

USSR intensifies activity regarding Japan

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As a part of its expanding program throughout the Far East, the USSR has in the past two months greatly intensified its overt activity and interest in Japan. Molotov in his speech on the anniversary of the October Revolution reiterated his nation's interest in the conclusion of an early peace treaty. It is improbable that a peace treaty can be concluded at this time, however, because the USSR will not abandon its right of veto nor the other interested nations their respective stands; therefore, the speech may be an indication of intensified propaganda from high level sources.

Furthermore, the USSR introduced before the Far Eastern Commission (FEC) in late September a bid for international controls of Japanese industry by "those powers most interested" which would extend beyond a formal peace treaty. This proposal has met opposition from other FEC countries, especially the US. It is the US position that, following the conclusion of a peace treaty, Japan will be subject to the terms of the treaty rather than to the FEC or other interim controls. The USSR has also demanded that the FEC call upon the US to inform it of "the substance" of a reported "secret military conference" held in Tokyo from 12 - 14 October. A prompt rejection of the implication that the FEC decision on "Basic Postsurrender Policy for Japan" is being violated was publicly issued by the US.

On still another level, the Soviet Member of the Allied Council for Japan beginning in late August has on several occasions been sharply critical of SCAP as well as the Japanese Government regarding the revision of labor policies and alleged restriction of civil liberties of both laborers and University students.

A further phase of overt propaganda activity has been the increased strength of the transmitter facilities of several Siberian broadcasting stations which beam Soviet propaganda to Japan. Even standard Japanese radio sets are capable of easily picking up the broadcasts.

Covertly, it is probable that the USSR has at least sanctioned if not actively encouraged the Japan Communist Party's activity in fomenting the current wave of strikes in Japan.

The ultimate Soviet objectives regarding Japan obviously include the withdrawal of occupation forces but the immediate objective is calculated on the local scale to hamper the US implementation of occupation policy and to harass the Japanese Government. On the international scene Soviet activity is intended to cause the US embarrassment as a "warmonger" as contrasted with the USSR's peace-loving proclivities.

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GENERAL (continued)

"Japan's past" creates present trade difficulties

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As a result of a conference on most-favored-nation treatment for Japan between Commonwealth and US representatives, definite progress has been made toward securing acceptance of the proposal at the April 1949 meeting concerning the General Agreement on Tariffs and Trade. Nonetheless, intense objections were met from the UK which fears Japanese commercial competition, especially textiles. In addition, so much concern was expressed over the absence of an effective exchange rate that Embassy Paris believes the establishment of a rate is an almost essential prerequisite for obtaining agreement in April.

The hesitancy in according Japan a most-favored-nation treatment arises generally from the memory of Japanese pre-war "dumping" tactics although of course a large part is attributable to fear of competition as such. However, apparently, this hostility is not strong enough to preclude several of the governments in the Commonwealth from entering into trade agreements with Japan as exemplified by the recent sterling area trade agreement amounting to \$220,000,000 (see B/FE Weekly 3 - 9 November 1948). It appears that the reluctance to grant the most-favored-nation's treatment to Japan reflects a desire to hold economic weapons in reserve which can be applied against Japan if the latter again resorts to unfair competition.

Australians emphasize role in Pacific defense

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The Australian Prime Minister, Joseph Chifley, has expressed little interest in the Atlantic defense agreements now being negotiated by the Western Powers. However, the Minister of Defense has indicated that Australia's request for leadership of Commonwealth defense cooperation in the Pacific was granted at the recent Prime Minister's Conference, and it is highly probable that the Australian Government, upon conclusion of the current Atlantic defense discussions, will continue to press for an auxiliary agreement incorporating the Pacific defense system of the Commonwealth into a world-wide allied defense network.

Australia, in any event, will attempt to become the main Pacific base of the British Commonwealth serving not only as a center for strategic and industrial development but as a distribution center. Emphasis will remain upon the expansion of industry, the development of natural resources and the transfer to Australia of some portion of military power formerly concentrated in Great Britain and elsewhere in the Far East. This will enable her to increase her usefulness as a primary support area remote from the scene of a future European or Asiatic conflict.

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GENERAL (continued)

No basic departure is expected from the 5-year defense program initiated in 1947 which is now consuming some 6-1/2% of Australia's national income. In recent months progress made in this program has included: (1) marked naval expansion, creation of a new Naval Air Force and the reactivation of the naval base at Manus, in the Admiralty Islands; (2) organization of a Joint-War-Production staff and Intelligence Bureau to coordinate Commonwealth defense in the Pacific with the United Kingdom and New Zealand; (3) increased appropriations for scientific research and development and continuing scientific research at the Commonwealth Rocket Range Project; (4) organization of additional Army and Navy reserve units; and (5) announcement of the Labor Government's decision permitting the despatch of volunteer recruits for overseas service.

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JAPAN

Implications of Tokyo Trials. The International Military Tribunal for the Far East drew its two and a half year old trial of Japan's 25 A-class War Criminals to a close on 12 November. Although the statement of atrocities has proved an "eye-opener" to the public, the too long-drawn out nature of the trial and the wrangling involved have failed to make the calculated effect of impressing Japan with democracy. Tojo's defense, which has partially redeemed him in the public mind, has provided a rationalization of the guilt-shunning complex of the Japanese whereby they feel the nation was "forced" into the war. The public reaction has been one of seeing the twenty-five defendants as assuming entire culpability for aggression against the Western Powers rather than the nation as a whole being guilty. Finally, the nation is keyed up by re-occurring rumors of the Emperor's abdication in connection with the carrying out of sentence.

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The Emperor is allegedly deeply perturbed by the judgement on some of his long-time intimates and by the personal attacks on him on the part of some of the judges. His abdication is not considered a likelihood, however, as: (a) such action would be symbolic of national guilt and the present government will not foster such sentiment and (b) the US having absolved the Emperor, MacArthur will not sanction the abdication because of the international implications and the Japanese political turmoil that would result.

Labor unrest in Japan threatens to develop to critical proportions again as a result of continued inflationary pressures. Firm government enforcement of the SCAP-suggested strike bans in government employment where previous crises have centered has rendered that area, for the present, relatively quiescent. Government employees are limited to attacks through Diet representatives on the proposed revision of the National Public Service Law (NPSL) restricting their trade union rights. Among workers in private industry, however, strikes and other dispute tactics have increased considerably in the last few weeks. Failure of negotiations between mine operators and employees in the coal and metal mining industries have touched off "wave" strikes while rejection of mediation efforts in the electric power industry has threatened the resumption of power cut-offs.

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Dissatisfaction centers around the workers need for wage increases to match mounting inflation. Management finds itself unable to meet these wage demands with its own resources and must look to the government for increased subsidies. For its part, the government, however much it might be impressed by the justice of the workers case and by the political inexpediency of incurring the ill-will of labor at this

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JAPAN (Cont.)

time, is under pressure from SCAP (1) to maintain a balanced budget and (2) to hold the line as regards the level of prices.

In view of the intimate relation of coal mining production and electric power supply to Japanese industrial rehabilitation and economic recovery, GHQ, SCAP has indicated considerable concern over the spread of strikes in these two fields. In September a SCAP Labor Division spokesman advised electrical workers against power cuts involving occupation forces, transportation and/or production services. Recently he warned coal miners that strikers would have their pay and special rations docked during the period of the walkout. SCAP has also indicated, through a Government Section spokesman, that it may be necessary for the government to protect national welfare where threatened by pressure groups even when private industrial enterprises are involved.

To date the Yoshida Government has followed a policy of rejecting as extreme the wage demands of the workers. It is also urging early passage of the revised NPSL and dissolution of the Diet. Basically representative of conservative business and agricultural interests Yoshida's Democratic-Liberal party may be expected: (1) to limit general wage increases and (2) restrict the trade union rights of workers in private industries affected with the public interest. Since it lacks majority control of the House of Representatives, however, the Yoshida Government favors postponement of a legislative attempt to settle such wage and legal issues until after elections, which if held soon would undoubtedly strengthen the Democratic-Liberals hand. Its success in this strategy depends on Yoshida's ability to limit the present extraordinary session of the Diet to issues immediately related to the NPSL and to prevent labor unrest from getting out of hand. While SCAP has not taken a positive stand on the question of Diet dissolution the US commitment towards Japanese economic recovery may compel further intervention in labor matters and more direct support of Yoshida.

KOREA

Reports of alleged uprisings in North Korea and the continuous flow of refugees into South Korea indicate that there is dissatisfaction in the Soviet zone, but it is still too early to predict that open revolt by either civilian or military groups may be expected at a certain date or in accordance with any time schedule. Reports of unrest began late in the summer of 1948 and have steadily increased in frequency, but it is considered doubtful that any organized resistance exists in North Korea. It is unquestionably true that tight police control and surveillance in

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MEMO (Cont.)

traditional Soviet style have been effective in keeping the opposition underground, therefore, it is believed that open opposition cannot be expected until the mass of dissatisfied people have a common leader, are secretly equipped with arms and ammunition, and friction between the ideologies of North and South Korea are brought into the open in the form of a clash of arms.

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CHINA

Communists continue reduction of Government's Hsuehou position. Despite press reports to the contrary the current Communist drive on Hsuehou, after encircling the city and seriously constricting Nationalist defense lines, now threatens to overrun the entire Nationalist position in the Hsuehou area. The concentration of Nationalist troops in the Pengpu area south of Hsuehou constitutes the only remaining obstacle athwart Communist Gen. CHEN Yi's path to Nanking. The Communist attacks, which began a little over a week ago, developed as a typical Communist envelopment with probings for weak points in the Nationalist defenses. The Government's defensive chain was broken when the main force of two Nationalist divisions east of Hsuehou defected; the Communists then vigorously exploited this break and succeeded in isolating the principal Nationalist force on this flank. Meantime, Communist pressure on the north, west, and south defenses of Hsuehou continued and they stepped up their harrassment along the entire length of the Hsuehou-Nanking rail line. At present Communist forces are capable of either reducing Hsuehou by assault or leaving a sufficient force to contain the city and let it rot on the vine, while the bulk of the Communists drive directly on Nanking. This appears to be the most likely line of Communist endeavor. When this occurs the Government in Nanking with its inadequate defenders will then be faced with the bitter choice of evacuating Nanking or accepting Communist terms of surrender.

In North China, the only other area where significant Nationalist forces remain to fight the Communists, LIN Piao's Manchurian forces have begun to filter thru undefended Great Wall passes and appear to be massing for a push on the Kailan Mines and the Peiping-Tientsin area. Remnants from the Nationalist Army's debacle in Manchuria have also begun to appear in the Tientsin area where they place an additional strain on already limited Nationalist food stocks. Although FU Tso-yi has reportedly evacuated Paoting and Chengte, capitals of Hopei and Jehol respectively, he is not capable of resisting the Communists. The Generalissimo's move in giving FU a carte blanche over all military operations in North China appears as an admission of the Generalissimo's growing inability to extend his authority over regional leaders.

The present National Government is rapidly nearing its end. Despite the imminence of Nanking's fall no concerted effort has been made to move the Government, and any last minute attempt to do so will only amount to the flight of certain high officials. CHIANG Kai-shek's personal power has kept the Government in the anti-Communist struggle despite its loss of public confidence and the general desire for peace which is shared by many Nationalist officials. The Government's base

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through mediation, might desire: a) to assist the Chinese Communists to peaceful domination of China; and b) simultaneously, to prevent the Chinese Communists from attaining any significant degree of independence from the USSR.

The Soviet Ambassador is again discussing with Nationalist officials, most of whom earnestly desire a negotiated peace, the possibility of Soviet mediation; but it is the intention of the Communists, not of the Nationalists, which is of paramount importance. Chinese Communist military successes in the past two months have amply demonstrated that the Communists are capable of eliminating organized Nationalist resistance in the near future, and the Communist radio has announced that the Communists absolutely will not negotiate with the present leaders of the National Government. Thus a genuine Soviet effort to mediate at this time would almost certainly indicate a genuine Soviet anxiety as to the future independence of the Chinese Communists. Communist assent to a Soviet mediation proposal, if the mediation were to take any form other than mere liaison between the Communists and those Nationalist elements still acceptable to the Communists, would tend to establish in fact the Soviet-Chinese Communist solidarity recently proclaimed in theory by MAO Tse-tung. Communist refusal to accept a mediation proposal, while permitting the USSR to retain publicly its propaganda position that the civil war is purely "an internal affair," would compel the USSR to exert privately every resource to prevent any increase in the independence of the Chinese Communists.

Fall of Yangtze cities hastened by farmers' boycott. Domestic commerce has virtually ceased between the cities and countryside of Nationalist China. Not only have farmers been unwilling to trade, but provincial and hsien authorities have clamped down on exports of agricultural commodities. Controlled prices, governmental confiscation of commodities entering cities, and distrust of the gold yuan are responsible, in part, for this breakdown in rural-urban trade. Over-shadowing all such contributory causes, however, is the hedging by rural areas against future political collapse and military threats. Thus, by waiting for the return of some semblance of political stability, the farmers are hastening the fall of the urban areas and the consequent collapse of the National Government.

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The critical food situation was temporarily eased in the lower Yangtze Valley by the release of Government emergency hoards of grain, the imposition of martial law on 10 November, and the promise of increased ECA food shipments. Although reports of Nationalist military successes at Hsuehou resulted in extreme price drops on 13 November, adverse news expected in the next few days will touch off another round of wild price jumps. By Government default ECA is carrying the responsibility for the grain ration program in Nanking and Shanghai but additional

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shipments, largely from Siam, are not expected to arrive before the end of the month.

The issuance of gold and silver coins to redeem gold yuan at the rate of GY \$40 to US \$1 will be undertaken by the Chinese Government on 22 November. This is a desperate effort to restore morale and confidence in the currency. The failure of the gold yuan has necessitated the use of hard currency to pay for military and civil requirements and especially for urgent rice purchases. Foreign obligations have been forgotten (ECA will pay for all current needs from abroad). Redemption of gold yuan with the meager Government holdings of gold and silver is a final gasp. The ensuing false prosperity will last only until Government reserves are exhausted.

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INDONESIA

Situation remains tense. While Foreign Minister Stikker is facing serious difficulties securing acceptance in The Hague of the results of his meeting with Republican Premier Hatta, Dutch authorities in Batavia continue to step up preparations for military action. The Dutch Army Information Service has increased the tempo of its press campaigns which are apparently aimed at justifying any military moves. The Republic, appreciably weakened by internal strife during the last few months, is awaiting the Dutch decision before it makes a determined appeal to the UN Security Council. However, even if the Netherlands Cabinet decides to resume GOC negotiations with the Republic, the divergence on basic issues between the parties as well as mutual distrust continues to be so great that a peaceful political settlement appears impossible.

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INDOCHINA

Settlement of Franco-Vietnamese dispute delayed by further negotiations. "B"
Lengthy negotiations further delaying the settlement of the Franco-Vietnamese dispute are anticipated as a result of the appointment by former Annamite emperor Bao Dai of Vietnamese representatives to discuss the technical agree-

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INDOCHINA (continued)

ments envisaged in the 5 June protocol. Since the French Cabinet must decide upon its representatives for the Negotiations, Overseas Minister Coste-Floret is attempting to limit the choice to personnel of his ministry. However, Premier Queuille's assistant on the Vietnamese problem is insisting upon delegates from other ministries, particularly Foreign Affairs and National Defense.

Meanwhile in Indochina, President Xuan of the Provisional Central Government of Vietnam is looking forward to High Commissioner Pignon's imminent arrival in the hopes that pressing domestic problems, particularly those of South Annam's administration, legal jurisdiction in Cochinchina (which will require French Assembly consideration), and the French and Vietnamese representation on the Council of Cochinchina, can be solved. General Xuan optimistically believes that individual accords can settle these particular disputes, and, in addition, can become the framework for a definitive treaty which will define future Franco-Vietnamese relations. Xuan hopes that the arrival of the new High Commissioner signifies that an agreement has been reached with Bao Dai on the delicate questions of diplomatic representation and foreign trade. However, his wishful thinking is further evidence of the growing impatience and frustration of the pro-French Vietnamese who are still awaiting implementation of the Franco-Vietnamese Agreement signed almost six months ago by former High Commissioner Bollaert, General Xuan and Bao Dai.

Strong reaction to proposed DeGaulle program. Both favorable and unfavorable reactions to a proposed DeGaulle-RPF program for Indochina have appeared in the Saigon press during the past week. Basically, the program specifies that separate diplomacy and a completely autonomous army are not compatible with Vietnam's membership in the French Union. In addition, since this membership requires that Vietnam have a part in the defense of the entire Union, it will be necessary to permit French troops and bases on Vietnamese territory and subordinate the Vietnamese army to the French High Command. The hesitant approval which appeared in some Saigon circles was probably inspired by Gaullist supporters, while the complete rejection of the RPF plans came from a Saigon editor who is the chief Vietnamese spokesman for the non-Communist nationalists in Vietnam. He is particularly dissatisfied with the RPF proposals for a special legal status for the French, the maintenance of federal services under French control, the implication that a plebiscite must be held to determine Cochinchina's status in Vietnam, and the subordination of the Vietnamese army and diplomatic service to those of France. The editor concludes that the word "independence" could scarcely be used in connection with the relationship proposed by DeGaulle.

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NEW CALEDONIA

ECA to aid New Caledonian nickel production. Recent ECA allocations to French Overseas Territories include \$505,000 to assist in purchase from the US of 50,000 tons of coking coal for New Caledonia; It is estimated that this will permit the production in 1949 of 2,000 tons of nickel matte over and above the scheduled production of 2300 tons. All New Caledonian nickel output will be shipped to France. "C"

The landed cost of US coal in New Caledonia is approximately \$24.50 a ton as compared with \$13 a ton for Australian coal. Chronic strikes and low productivity in the Australian mines, however, have precluded the possibility of meeting New Caledonian requirements with coal from that source. The Societe Le Nickel, which operates the New Caledonian nickel properties, is negotiating with the World Bank for a loan to finance installation of a plant which would permit the use of fuel oil in place of coal. However, even if the loan is approved, it would require two years to complete the installation.

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